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 HD **Environmentalists and banks square off as new climate rules loom; All eyes are on Canada's banking regulator and what will be in its final version of climate-focused finance rules early next year**
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Environmental advocates are clear about what they want from Canada's banking regulator. They say it should force financial institutions to keep more capital in reserve as a buffer against future climate-related shocks. Furthermore, amounts should be tied to how much of their loan books support the fossil fuel industry.

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They won't get much agreement from the banks, so all eyes are on the financial watchdog and what will be in its final version of [climate](#)-focused finance rules early next year. The process reflects a larger debate: Green groups want banks to accelerate a move away from oil and gas to meet climate goals, while the banks plan to invest in technology to help oil and gas clients lower emissions.

In May, the Office of the Superintendent of Financial Institutions, or OSFI, [released draft rules](#) mandating federally regulated banks, insurers and pension funds to provide detailed climate-related disclosure and deal with potential weak spots in their finances from physical risks and those from economic and policy changes. As a part of the policy, OSFI would require institutions to adopt the reporting framework of the Task Force on Climate-related Financial Disclosures, or TCFD, now a global standard.

It's aimed at bolstering public confidence in the financial system by increasing transparency, OSFI said. With this work, OSFI joins other Canadian and international regulators and voluntary groups seeking better and more standardized disclosure of climate-related data and analysis of what the future might hold under a range of scenarios. The new International Sustainability Standards Board and the U.S. Securities and Exchange Commission are among organizations moving to consistent reporting rules.

Unlike many other authorities, OSFI doesn't post responses to its calls for submissions. Some participants, notably green groups, have put theirs online. The banks haven't, but made some of their positions known in a similar process conducted previously by Canadian Securities Administrators. Conversations with banking and other industry officials have also shed some light.

"Fossil fuel activity should be subject to higher risk factors and capital requirements to reflect the higher risk this activity imposes on the financial system and to change the incentive structure that currently encourages financial institutions to foster this activity," Climate Action Network Canada, Ecojustice and Environmental Defence said in their submission.

The group cited OSFI's treatment of cryptocurrency assets: Banks can't include them in core capital or assign them collateral value. "The vast and potentially catastrophic risks associated with new fossil fuel expansion and exploration demands similar treatment," the group wrote.

Matt Price, director of corporate engagement for the advocacy group Investors for Paris Compliance, points out such measures are being discussed in Britain. At a recent Bank of England Climate and Capital Conference, some delegates called for a combination of increased buffers for systemic risks and limits on concentrations of bank business in high-emitting sectors. Mr. Price said financial institutions could also benefit from a system that rewards investments in clean energy.

In its draft, OSFI calls for financial institutions to incorporate climate-related risks, including "severe, yet plausible scenarios," into their own assessments of whether internal capital is adequate to remain solvent. One risk it highlights is increased drawdowns of deposits and lines of credit by clients that are susceptible to climate-induced shocks. But the draft does not go as far as mandating a sector-wide increase in capital buffers, or higher ratios based on the carbon-intensity of the institutions' clients.

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The Canadian Bankers Association (CBA) declined to offer insight into its submission to OSFI. However, a senior banking industry source said the industry generally sees the prospect of increases to capital buffers as being several years away. On the energy front, banks' investments in decarbonization projects stand to remove some of the climate-related risks, the source said. Investing through Ottawa's Canada Growth Fund could be one option. The Globe and Mail is not naming the person as they are not authorized to speak on the topic.

Meanwhile, the CBA's submission to the CSA consultation called for safe-harbour provisions to climate disclosure, offering protection against being legally beholden to what they are forecasting. The provision would encourage "robust" reporting where data and methods are still evolving, the CBA said. The industry source said the institutions want that as part of the OSFI rules as well.

There is merit to safe-harbour protection if it moves the efforts forward, said Sean Cleary, executive director of the Institute for Sustainable Finance at Queen's University. "The message there is, 'Yes, we do want it to be high-quality, high standard. But we need to get moving on it really soon,' " he said. "We can't let perfection kill the process."

Indeed, last year, OSFI and the Bank of Canada warned long-term economic growth and financial stability could be put in jeopardy if the country delays implementing policies to deal with the low-carbon transition. That project identified gaps in the data needed to conduct climate-related scenario analysis.

It shows the process will have to evolve, said Rosemary McGuire, vice-president, research, guidance & support, at Chartered Professional Accountants Canada. "You can't just lob these disclosure requirements without the accompanying guidance and information."

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